

## Message Text

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PAGE 01 PARIS 18954 01 OF 02 141135Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----050942 141203Z /46

R 141049Z JUN 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 3215

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 18954

USOECD

EXDIS

PASS WHITE HOUSE - EYES ONLY FOR VICE PRESIDENT MONDALE  
AND SECRETARY MARSHALL FROM UNDER SECRETARY COOPER AND  
ASSISTANT SECRETARY PACKER

E.O. 11652: GDS  
TAGS: EGEN  
SUBJECT: INVESTMENT FLOWS TO LDCS

MEMO PROMISED MONDAY IS AS FOLLOWS:

BACKGROUND

1. THE NON-COMMUNIST WORLD IS NOW MARKED BY THREE  
ANOMOLOUS CONDITIONS:

-- AN EXCESS OF LABOR AND MANUFACTURING CAPACITY IN THE  
DEVELOPED WORLD (16-1/2 MILLION UNEMPLOYED IN OECD,  
A FIGURE THAT IS MORE LIKELY TO INCREASE THAN  
DIMINISH UNDER CURRENT POLICIES);

-- A MASSIVE AMOUNT OF UNDERUTILIZED FINANCIAL ASSETS  
IN A FEW COUNTRIES (SAUDI ARABIA AND A FEW OF  
THE SMALLER OPEC COUNTRIES HAVE OVER \$60 BILLION  
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AND THE SUM WILL GROW BY \$10-20 BILLION ANNUALLY,  
AND JAPAN IS ACCUMULATING ASSETS AT A COMPARABLE  
RATE);

-- A CLEAR NEED FOR FURTHER INVESTMENT, ESPECIALLY IN  
THE DEVELOPING WORLD AND IN POTENTIAL INFLATION  
SECTORS SUCH AS ENERGY, FOOD, AND SOME BASIC

COMMODITIES.

2. CHANNELLING THE FUNDS TO THE NEEDED INVESTMENT WILL FURTHER MANY OF YOUR ADMINISTRATION'S GOALS: INCREASING WORLD DEMAND AND U.S. EXPORTS, THEREBY REDUCING BOTH THE U.S. TRADE AND BUDGET DEFICITS, IMPROVING ECONOMIC AND HUMAN CONDITIONS IN THE POOR COUNTRIES, AND REDUCING BOTH UNEMPLOYMENT AND POTENTIAL INFLATIONARY BOTTLENECKS.

SOLUTIONS

3. THE WORLD BANK AND REGIONAL BANKS (MULTINATIONAL DEVELOPMENT BANKS) ARE THE INSTITUTIONS THAT TRADITIONALLY BORROW FROM THE RICH COUNTRIES AND LEND TO THE POOR FOR THESE SORTS OF ACTIVITIES. THE OPTIONS FOR ADDITIONAL ACTION, ONCE A DECISION IS MADE TO INCREASE SUCH LENDING, INCLUDE EXPANDING THE OPERATIONS OF THESE BANKS, EXPANSION PLUS MODIFICATION OF THE BANKS' MODE OF OPERATION, OR ESTABLISHING NEW LENDING INSTITUTIONS. WE RECOMMEND:

1) A MAJOR INCREASE IN WORLD BANK CAPITAL AS AGREED IN PRINCIPLE AT THE LONDON SUMMIT (THIS INVOLVES U.S. CALLABLE CAPITAL BUT ONLY LIMITED BUDGETARY OUTLAYS);  
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2) THE CREATION OF A MULTILATERAL GUARANTEE FUND, IN WHICH THE U.S. WOULD PARTICIPATE WITH OTHER MAJOR COUNTRIES, TO ENSURE OPEC COFINANCING OF MULTINATIONAL DEVELOPMENT BANK LOANS AGAINST LOSS. (AGAIN, THIS MIGHT INVOLVE APPROPRIATIONS BUT WOULD NOT INVOLVE OUTLAYS -- UNLESS A DEFAULT OCCURRED.)

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

-----050957 141203Z /46

R 141049Z JUN 78

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3216

C O N F I D E N T I A L SECTION 02 OF 02 PARIS 18954

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EXDIS

PASS WHITE HOUSE - EYES ONLY FOR VICE PRESIDENT MONDALE  
AND SECRETARY MARSHALL FROM UNDER SECRETARY COOPER AND  
ASSISTANT SECRETARY PACKER

POLITICAL CONCERNS

4. AN INITIAL RESPONSE MAY BE THAT THE U.S. CANNOT  
AFFORD TO HELP POOR COUNTRIES DEVELOP AND BECOME  
COMPETITORS WHILE U.S. UNEMPLOYMENT IS AT 6 AND WE  
HAVE TOO FEW BUDGET RESOURCES TO MEET DOMESTIC NEEDS.  
THE RESPONSE IS THAT WE ARE USING OTHER COUNTRIES'  
(SAUDI AND JAPANESE) FUNDS SO THAT OUR BUDGET OUTLAYS  
DO NOT INCREASE, THAT ENERGY AND FOOD PRODUCTION ARE NOT  
GENERALLY COMPETITIVE, AND THAT THESE POLICIES WILL  
REDUCE U.S. UNEMPLOYMENT.

5. A MORE SOPHISTICATED CRITICISM IS THAT WE SHOULD  
NOT GUARANTEE OR SUBSIDIZE SAUDI LOANS TO DEVELOPING  
COUNTRIES. BUT AMERICANS COLLECTIVELY BEAR THESE  
RISKS ANYWAY, INsofar AS OPEC PUTS MONEY INTO U.S.  
BANKS AND THESE BANKS LEND TO LDCS.  
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NEXT STEPS

6. IF YOU ARE INTERESTED WE CAN QUIETLY INVESTIGATE  
THE POTENTIAL WITH SENATORS WHO HAVE EXPRESSED STRONG  
INTEREST IN THE PROBLEM (CHURCH, JAVITS). IF INITIAL  
INDICATIONS ARE POSITIVE YOU COULD ENDORSE THE  
POTENTIAL AT THE SUMMIT AND ASK FOR FURTHER STUDY ON  
AN INTERNATIONAL BASIS. PROPERLY PRESENTED, THIS KIND  
OF PROPOSAL MIGHT COMMAND SUPPORT FROM THE AFL/CIO,  
AMONG OTHER GROUPS.  
SALZMAN

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## Message Attributes

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**Decaption Date:** 20 Mar 2014  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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